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SUBJECT: Kayseri: Eye of the Anatolian Tiger

REFTEL: Ankara 0038

1. (SBU) Summary: Kayseri, a city of one million people in the center of Turkey, is one of the centers of Turkey economic revival. The business elite tends to recycle investment capital back into the city, and credit is usually obtained overseas. The limits on Kayseri's development are its fickle labor market, which copes with migration to Istanbul and from rural areas, as well as increasing competition from Chinese goods. Politically, Kayseri is conservative, but not especially religious. The ruling Justice and Development Party (AKP) controls the province's parliamentary delegation and city government, a situation that is unlikely to change any time soon. End Summary.

A Booming Economy

2. (U) Kayseri's growing economic weight is evident. On the edge of town, a massive industrial park produces an increasingly wide array of goods, including furniture, textiles, appliances, machinery, and tools. Most of Kayseri's goods are produced for Turkey's domestic market, but exports are growing, with an estimated forty percent eventually exported.

3. (U) Many Kayseri business leaders credit their success in part to a tradition of re-investing profits in family conglomerates in the region. For example, Irfan Basyazicioglu, who started with an animal feed factory in the 1960s, and used the steady profits to fund real estate investments and other small factories in Kayseri. "Business people in Istanbul are looking to earn a quick dollar," he says. "Here in Kayseri, we pay attention to things like debt ratios. We don't like to rely on outside credit. We prefer controlled, natural, steady growth."

4. (U) Those who do seek credit to start their businesses have

traditionally looked outside of Turkey. Mehmet Filiz, leader of a local young business owner's association, says that until recently, Kayseri factory owners found that credit was more cheaply financed from overseas, in spite of caution about the instability of Turkey's

economy. Turkish banks were seen as unreliable, unimaginative, and bogged down with red tape. In the past few years, however, relaxation of rules on foreign partnerships and acquisitions provided Turkish banks with an infusion of know-how and capital that they are using to invest in domestic business. Domestic credit services are still second-rate, Filiz says, but he predicts that some of the market leaders such as Garanti Bank and Ak Bank will soon become the lenders of choice.

¶5. (U) The relatively strong position of Turkey's currency at the moment is a concern for Kayseri's exporters. Facing competition from Asia and developing countries that take advantage of EU favorable-treatment rules, factory owners are hoping that the lira will slide in the coming year to a rate of 1.6 lira to the dollar, from the current 1.4 lira to the dollar rate.

¶6. (SBU) China is of particular concern to Kayseri's business elite. The mere mention of competition from Chinese goods produces a torrent of invective about the "illegal" subsidies provided to state-run businesses and the "poor quality" that is undercutting superior Turkish goods. Kayseri's Deputy Governor, Mehmet Ali Ceviker, worries that in spite of the stereotype of cheap Chinese products, their quality is actually increasing. He is not alone - business owners from every sector are looking for a strategy to deal with increasing competition from Chinese goods, but have found little strategic thinking from either the government or business groups.

Good Help Is So Hard To Find

¶7. (U) The primary complaint of Kayseri's business elite is that it is increasingly difficult to find qualified labor. Basyazicioglu actively recruited a university-trained engineer, offering him a competitive salary and benefits package, but lost him to the lure of Istanbul. Basyazicioglu had to fill the position with an elementary school graduate.

¶8. (SBU) Bulent Kalpaklioglu, a real estate entrepreneur, echoes the sentiment, saying that educated and skilled workers prefer Istanbul's cosmopolitan attractions to the conservative, provincial countryside, no matter how many pseudo-cosmopolitan trappings are created to retain the elite. "When it's a social faux pas to drink wine in a public setting, you're never going to keep the people you need," he comments.

¶9. (SBU) The "brain drain" would be acceptable to Kayseri's business leaders if they felt that there were alternatives among the waves of migrants coming from nearby rural areas. Instead, they mainly see migrant workers with no skills or special training. Even graduates of Kayseri's well-respected magnet industrial high schools often pursue their careers in Istanbul or Ankara. Kayseri expects little from the central government, but the business community asserts that a training program for internal migrants would help with unemployment while increasing their profit margins. Officials at the Kayseri governor's office insist that such a program is in the works, but admit that it has a long way to go.

¶10. (U) Despite the obvious boom in Kayseri's business sector, there is a disconnect between the rhetoric of employers and employees. Officials in the city government state that "whoever wants a job in Kayseri can find one," but this is contradicted by the noticeable presence of beggars on the streets, a rare sight in other parts of Turkey.

All AKP, All The Time (National Edition)

¶11. (U) In the center of Turkey's conservative heartland, Kayseri is AKP country, the home of Foreign Minister Gul and a bastion of electoral strength for the ruling Justice and Development Party. All of Kayseri's eight MPs are from AKP. Gul is a beloved figure,

and is well known among the business elite who speak of him as "Abdullah" rather than "Mr. Gul."

¶12. (SBU) Despite their glowing descriptions of the current government and appreciation for its religious roots, the people of Kayseri are more concerned with stability than they are with ideology. "This is not Konya," says one business owner, referring to the politically religious sentiments further west. "We want political stability the most, whatever the color of the government," says another.

All AKP, All The Time (Local Edition)

¶13. (SBU) The AKP mayor of Kayseri, Mehmet Ozhaseki, is arguably one of Turkey's most popular mayors. In the 2004 local elections, he was re-elected for the third time with a whopping seventy percent of the vote. His popularity is attributed to massive infrastructure investments and close ties to the business community. When asked about a possible parliamentary run, Ozhaseki's staff coyly stated that he was waiting for the results of the presidential election in May, and would then test the waters in the expectation of a "high-level" (read: minister level) position were he to enter parliament.

¶14. (SBU) The Kayseri city government both relies on and is hemmed in by budgetary links to the central government. Of the 310 trillion YTL city budget, around thirty percent comes from government funds allocated from Ankara. However, the local taxes, rents, and fees that comprise the remainder are kept in the same centralized accounts. "We have to ask for everything from Ankara, every last penny," says Mustafa Yalcin, the mayor's Chief of Staff. "It's not as much of a problem at the moment as we are all from the same political party. We are afraid that if the parties change, all of our work will come to a grinding halt."

¶15. (SBU) Like the "brain drain" of Kayseri's workforce, the Kayseri municipality is plagued by the flight of tax revenue to Istanbul. Since most of Kayseri's major businesses have their headquarters in Istanbul, corporate taxes often end up in Istanbul's coffers rather than in Kayseri, where goods are produced. According to Yalcin, Istanbul is more attractive for some headquarters because they are subject to fewer solicitations for charitable donations. In Kayseri, where a business may be a top taxpayer, owners are under pressure to support local NGOs and charities.

Comment

¶16. (SBU) Kayseri's business and political leaders are bullish. The region's economy is starting to attract foreign investment, and the city is benefiting from ever-expanding infrastructure projects. Economic and political stability is a priority and Kayseri's decision-makers see no cause for concern. The main checks on Kayseri's growth will be increasing competition for skilled labor and the willingness of local businesses to adapt to global market changes. In both of areas, Kayseri will be at the mercy of Turkish politics and economics. End Comment.

WILSON